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DEPARTMENT FOR EUR/CARC AND EB/CIP/BA - AGIBBS

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SUBJECT: VIMPELCOM BUYS ARMENTEL, AGREES TO GIVE UP MONOPOLY

REF: A. 05 YEREVAN 1229

[1](#)B. 05 YEREVAN 2158

Classified By: EconOff E. Pelletreau for reasons 1.4 (b,d).

SUMMARY

[1](#)1. (SBU) On November 14, the Armenian Public Services Regulatory Commission (PSRC) approved the sale of Greek-owned OTE's 90 percent stake in ArmenTel to Russian mobile telecommunications leader, VimpelCom, for USD 474 million. At the PRSC hearing, VimpelCom announced plans to end ArmenTel's monopoly on international telephone services and internet access and suggested that it would consider ending the monopoly on fixed-line services as well. Some politicians have publicly criticized the sale because it gives a Russian company control over another piece of critical Armenian infrastructure. Russia has long dominated the Armenian energy sector and controls the electrical distribution network. International experts and members of the business community, however, are cautiously optimistic that improved telecommunication might lead to an overall increase in economic growth. END SUMMARY.

VIMPELCOM BUYS 90 PERCENT OF ARMENTEL

[1](#)2. (U) In early November, VimpelCom announced plans to buy OTE's 90 percent stake in Armenia's telecommunications company, ArmenTel, for USD 434.4 mln plus assumption of an additional USD 50.8 mln in outstanding taxes and debt. The GOAM holds the remaining 10 percent of ArmenTel shares. VimpelCom, one of the largest mobile operators in Russia, recently acquired mobile operators in Ukraine, Tajikistan, Uzbekistan and Georgia. The company operates under the "Beeline" brand in Russia and Kazakhstan, is traded on the New York Stock Exchange and is known for high quality service, though apparently has no experience in fixed-line telephony. ArmenTel holds 100 percent of Armenia's fixed-line market (approximately 600,000 customers) and 40 percent of the mobile market (approximately 400,000 customers). Greek-owned OTE bought ArmenTel in 1997 for USD 142.5 million and has invested over USD 300 million in the company.

SWAPPING THE MONOPOLY FOR 100 PERCENT OWNERSHIP?

[1](#)3. (SBU) At a public hearing about the sale, VimpelCom

announced plans to end ArmenTel's monopoly on international calls and internet services and to open up the duopoly on mobile phone services established when VivaCell entered the market in June 2005 (ref A). VimpelCom also hinted that it would be willing to give up ArmenTel's monopoly on fixed-line services, a move which Armenian Minister of Transportation and Communication Andranik Manukian suggested would make it possible for the GOAM to sell its 10 percent stake to VimpelCom. "We kept our shares to be able to influence somehow the company's decisions," Manukian said. If the monopoly provisions are reconsidered, "prices will result from competition," he added. Head of the Press Office at the Ministry, Tamara Ghalechyan told us that the GOAM is considering offering its shares to VimpelCom, but that no formal offer had been made. Even if it gives up the monopoly, VimpelCom will likely manage the fixed-line service for the next few years, Ghalechyan added.

14. (SBU) Despite VimpelCom's pledge to give up ArmenTel's various monopolies, infrastructure limitations may make it difficult for other companies to enter the market. Currently, there is one fiber-optic gateway which carries virtually all of Armenia's international voice and internet traffic. ArmenTel could prevent real competition by denying reasonably-priced access to the gateway--unless and until a competitor were willing to invest in the costly undertaking of laying a new fiber optic line, which is presumably years away. Similarly, if ArmenTel refuses to grant access to its fixed-line infrastructure on reasonable commercial terms, the costs of developing a new fixed-line network would be even more prohibitive to potential competitors.

PRSC MAY NOT BE UP TO THE CHALLENGE

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15. (C) VimpelCom's decision to open the market poses significant challenges to Armenia's telecommunications regulator, the Public Services Regulatory Commission (PRSC), for which it is clearly not yet ready. Despite on-going efforts to strengthen the PRSC, it will be at least another year or two before the commission has the capacity to properly regulate the telecommunications sector. (COMMENT: Leaving aside the still-open question of whether the government is prepared to cede real authority to the PSRC. Our assistance is helping address the capacity issue. END COMMENT.) The PSRC's lack of effective authority was demonstrated by the fact that the sale was announced more than two weeks before the PRSC held its hearing to discuss the deal.

SOME POLITICIANS CRY FOUL

16. (C) Some politicians, such as National Democrats party chairman, Arshak Sadoyan, publicly criticized the deal. Sadoyan complained Armenia was handing over the telecommunications network, "the nerve system of the country," to another state. He speculated that the sale was not truly an agreement between private businesses, but was dictated by Russian authorities. Extensive press coverage of rumors that OTE declined a higher offer from United Arab Emirates' Etisalat has spurred further (unsubstantiated) speculation about interference from Moscow. Neither Etisalat's nor VimpelCom's complete bid has been made public. Vahe Yacoubian, an amcitol attorney who advocated the GOAM on all this, told us that a key factor in selecting bidders was their readiness to give up ArmenTel's right to maintain a monopoly over internet services. He told us that President Kocharian had personally engaged on this issue and that the GOAM understood Armenia could not develop in the IT sector without competition.

COMMENT

17. (C) While the sale to VimpelCom marks another Russian incursion into Armenia's infrastructure (ref B), we are not convinced it is fair to paint all of these Russian investments with the same ominous brush. VimpelCom is not considered--so far as we are aware--one of those Russian companies seen as a pure subsidiary of "Kremlin Inc.," which would make it more plausible that VimpelCom might have actually won the bid fair and square, rather than as a politically-manipulated deal. Armenia badly needs a more competent telecommunications operator and it looks like VimpelCom may be up to the task. Willingness to give up ArmenTel's landline monopoly could have been a valid non-price consideration for favoring the Russian firm. More worrisome, though not surprising, is that this is another example of the PSRC getting sandbagged, and delivering ex post facto blessing on a fait accompli. As for shrill "the Russian are coming!" fearmongers, we have trouble seeing how ownership of the phone company is any great political weapon, in the way that natural gas can be. VimpelCom is an internationally recognized company that appears willing and able to make much-needed upgrades to the ArmenTel network. The end of ArmenTel's monopoly on international and internet services may attract new investment to these areas as well. We are cautiously optimistic that this deal will prove a good one for Armenia as VimpelCom has pledged to upgrade the networks, promoting increased overall economic growth.
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